

FUNCTIONAL DESCRIPTION

OFFICE OF ENTERPRISE RISK MANAGEMENT (OERM) AND CHIEF RISK OFFICER (CRO)

Background:

The Board of Administration (the “Board”) has recommended the adoption of a Risk Intelligent Enterprise Management (RIEM) Policy (the “Policy”) with risk management guiding principles formalizing the organization’s commitment to implement a risk intelligent enterprise management strategy. The Policy holds the Chief Executive Officer (CEO) and Executive Management “accountable for the implementation and effectiveness of the organization’s risk intelligent enterprise management strategy and architecture.”

Primary responsibility and accountability for the management of value and risk resides with each member of the organization’s executive and senior management, pursuant to the risk policy parameters and tolerances established by the Board. By virtue of the position, the CEO is ultimately accountable for the effective management of CalPERS enterprise risk. However, both the Board and Executive Management recognize the need for a centralized independent function to serve as a focal point of aggregation for risk and reassurance activities, provide independent evaluations, and to help build common risk intelligence capabilities.

The Office of Enterprise Risk Management (OERM) and the Chief Risk Officer (CRO) will provide an independent, cross-functional assessment of financial, compliance, legal, security, operational, reputational/political, strategic, and other risks. The CRO has the authority and is accountable for providing reassurance that management’s approach to risk is in alignment with CalPERS strategic goals and objectives, and, as necessary, escalating issues to the Board. The CRO will also ensure that the risk management policy and principles set forth by the Board are followed, and the intended outcomes are achieved.

CRO Functional Responsibilities:

The CRO is responsible for:

1. Developing CalPERS Risk Intelligence

- Develop risk intelligence capabilities throughout CalPERS, including a common enterprise-wide process, tools, and skills for identifying, assessing, and mitigating key risks such as strategy, operations, reporting, and compliance
- Develop a common process for aggregating and reporting risk information to Executive Management and the Board
- Identify strengths, weaknesses, and best opportunities for improvement in risk management capabilities

- Evaluate and propose policy improvements for the consideration of risk and value
- Monitor and validate risk measurement and valuation methodologies to ensure alignment with the organization's management capabilities and its strategic direction
- Develop and implement appropriate change management strategies to ensure successful and sustainable risk management and reassurance strategies, processes, and behaviors among CalPERS management and staff

2. Providing Independent Risk Oversight and Reassurance

- Provide independent reassurance that management's reports regarding exposures, processes, and metrics can be relied upon
- Provide a comprehensive and independent view to Executive Management and the Board of overall enterprise-wide risk exposure
- Participate in the evaluation of executives in terms of their risk management performance

3. Coordinating Enterprise Risk Management and Reassurance Activities

- Work with process operators to coordinate the evaluation and management of risk exposures in business processes and major transactions
- Coordinate the gathering of risk intelligence to support executive and Board decision-making
- Support the CEO and Executive Management in the performance of their role as the Enterprise Risk Management Committee by facilitating discussions, ensuring that risk issues are properly and fully framed and supporting documentation is available and complete
- Reassure compliance with laws, regulations, and policies
- Reassure the effectiveness of confidentiality, availability, reliability and privacy of information assets
- Monitor the effectiveness and efficiency policies and procedures for preventing loss of financial or physical assets

4. Providing Independent Risk Assessment

- Proactively drive key risk governance around risk management and assessment and play a pivotal role in the oversight and execution of enterprise risk management activities
- Veto proposals and practices which exceed approved limits until reviewed by Executive Management
- Alert Executive Management and escalate, as necessary, to the Board when risk exposure exceeds established tolerances

- Monitor emerging risks and implementation of risk mitigation strategies
- Conduct fraud, waste, and abuse analyses and supervise investigations into such allegations

OERM Functional Responsibilities

To assist in fulfilling these duties, the CRO will direct an OERM that oversees:

1. Enterprise Risk Intelligence
 - Development of risk tools and processes
 - Risk Management training for management and staff
 - Technology for risk monitoring and reporting
 - Independent risk assessments
2. Enterprise Compliance
 - Compliance with laws, regulations, and policies
 - Reporting of compliance
 - Investigations of allegations of fraud, waste, and abuse
3. Enterprise Privacy and Security
 - Information security risk assessments ensuring the confidentiality, availability, reliability, and privacy of information assets
4. Business Continuity
 - Disaster recovery
 - Business continuity

In responding to changing risk exposures, the composition of the OERM may change as determined by the CRO and Executive Management. The OERM should bring together specialists from across the organization to form a competency center for providing independent reassurance that current enterprise risks are being properly managed by responsible and accountable executives.

Value Proposition

Having a CRO / OERM will:

1. **Enhance CalPERS management of risk**
 - Provide the Board and Executive Management with a clear, consistent, and complete view of the organization's risks and opportunities and its readiness to manage them
 - Reduce the total cost of risk to the organization as a result of early identification and assessment of risk and better coordination of enterprise risk and reassurance activities

- Proactively addressing risk will reduce the opportunity for the occurrence of fraud and abuse in the administration of CalPERS programs

2. Provide focal point for implementing Enterprise Risk Management strategies

- Coordinate the development of capable people, processes, and systems to support risk intelligent business growth while protecting existing programs and operations
- Ensure communication of risk issues across potential organizational silos
- Provide independent reassurance that risk mitigation strategies are implemented effectively and efficiently and that management's reports can be relied upon
- Create a competency center or working team of specialists in risk management, compliance, information security, and business management

3. Improve decision-making and enterprise governance

- Provide timely insights and intelligence that facilitate superior decision-making about future risks and opportunities as well as risks to existing programs and operations
- Gather intelligence across the enterprise to support risk intelligent decision-making
- Enable the organization to make better cost/benefit decisions in its risk management and mitigation efforts
- Develop a common risk framework, policies, process, and measurement methodologies to enable superior decision-making

Conclusion:

Establishing an Office of Enterprise Risk Management and the position of Chief Risk Officer is a critical element in implementing a successful risk intelligent enterprise management strategy for CalPERS and is a required step to move CalPERS to becoming a risk intelligent organization. Moving forward with the establishment of this function is a Board priority and Strategic Objective of CalPERS.